

HILLSDALE CONSERVATION DISTRICT

AUDIT REPORT

SEPTEMBER 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hillsdale Conservation District	County Hillsdale
Audit Date 9/30/05	Opinion Date 3/31/06	Date Accountant Report Submitted to State: 5/1/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Bailey, Hodshire & Company PC			
Street Address 479 E Chicago Rd		City Jonesville	State MI
Accountant Signature Bailey Hodshire & Company PC		ZIP 49250	Date 5-1-06

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3 - 6
BASIC FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet - Statement of Net Assets	7
Statement of Governmental Revenue, Expenditures and Changes in Fund Balance - Statement of Activities	8
Notes to Financial Statements.....	9 - 14
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund.....	15

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hillsdale Conservation District
Jonesville, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hillsdale Conservation District, Hillsdale County, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Hillsdale Conservation District as of September 30, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes, the District adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

The management discussion and analysis included in table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted

Hillsdale Conservation District
Page 2

principally of inquiries of management regarding the methods of measurement and presentation of the Board of Directors required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The required supplementary information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Bailey Hodshue + Company PC

Jonesville, Michigan
March 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hillsdale Conservation District

Management's Discussion and Analysis Year Ended September 30, 2005

New Financial Reporting

The management's discussion and analysis, a requirement of GASB 34, is intended to be the Hillsdale Conservation District management's discussion and analysis of the financial results for the year ended September 30, 2005. This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments issued in June 2000.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements that show information for the District as a whole, its funds, and its fiduciary responsibilities. The statements and notes to those statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial activities. The fund financial statements report the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds.

The District's auditor has provided assurance in their independent auditor's report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. A user of this report should read the independent auditor's report carefully to ascertain the level of assurance being provided for each part of the Financial Section.

From a financial perspective, Hillsdale Conservation District (hereafter referred to as the District), being a governmental education entity, seeks to fulfill its mission to protect the soil and water of Hillsdale County through state, federal programs as well as educational outreach. This financial report reflects the fiscal activities performed in compliance with the standards set by the Governmental Accounting Standards Board (GASB). The annual report summarizes the fiscal activities that have taken place during the accounting cycle ending September 30, 2005 as they relate to the efforts of the Hillsdale Conservation District in carrying out its mission.

Included in this report are a series of financial statements that are used in order to provide a complete overview of the financial activities that took place during the reporting period. In addition, the statements provide useful information that displays the financial condition of the District at the end of the period.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

Hillsdale Conservation District

Management's Discussion and Analysis Year Ended September 30, 2005

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended September 30, 2005:

- The assets of the District exceeded its liabilities at the end of the most recent fiscal year by \$115,590 (net assets) at the government-wide level.
- The District's total net assets increased by \$8,065, as a result of current year activity at the government wide level.
- Total governmental fund balance increased by \$11,115 in the current year at the fund level.

Using this Annual Report

The basic financial statements include information that presents two different views of the District:

- The first column of the financial statements includes information on the District's General Fund under the modified accrual method. These Fund Financial Statements focus on current financial resources and provide a more detailed view about the accountability of the District's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The government wide financial statement columns provide both long-term and short-term information about the District's overall financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CONDENSED FINANCIAL INFORMATION

The following table shows, in a condensed format, the net assets as of September 30, 2005 and the changes in the net assets during the current year. A comparative analysis of data will be presented in future years when the information is available.

Current Assets	\$ 99,397
Capital Assets, Net	<u>19,699</u>
Total Assets	<u>\$119,096</u>
Liabilities	<u>\$ 3,506</u>

Hillsdale Conservation District

Management's Discussion and Analysis Year Ended September 30, 2005

Net Assets	
Invested in Capital Assets	\$ 19,699
Restricted	0
Unrestricted	<u>95,891</u>
Total Net Assets	<u>\$115,590</u>
Revenue	\$ 211,614
Expenses - District Services	<u>(203,549)</u>
Change in Net Assets	<u>\$ 8,065</u>

The District's total net assets were \$115,590 at September 30, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$95,891 at the end of the fiscal year. The net assets invested in capital assets were \$19,699.

Governmental Activities

The District's governmental revenues totaled \$211,614 with the greatest revenue source being federal grants.

The District incurred expenses of \$203,549 during the year. The majority of governmental expense is associated with District operations.

The District's Funds

Using the Fund Accounting method, the District utilizes one major fund for reporting and operational purposes as follows: General Fund. There are two program funds within the General Fund that are administered by the District: Groundwater Stewardship Program (GWSP) and the Hog Creek Watershed Implementation Project. Currently, the District has no non-major Funds.

The General Fund provides the basis of the financial disclosure to measure how well management has handled discretionary revenues and expenses. Focusing on the General Fund, total revenues and other sources less total expenditures and other uses resulted in an increase in the General Fund fund balance by \$11,115, most of which were cash and deposits. This is very positive for the future operation due to there being reduction in state and local revenues. Management will continue to aggressively seek ways to seek funding through grant funding for projects and staff.

District Budgetary Highlights

Budgeted expenditures and other uses for the year ended September 30, 2005 were based on the original budget that was approved at the September 20, 2004 Board of Directors meeting. Actual revenues were lower than budgeted revenues by \$45,566 due to the completion of the Hog Creek Watershed Planning Project, revenue received that was due for a project to cover expenditures for the year, and one grant

Hillsdale Conservation District

Management's Discussion and Analysis Year Ended September 30, 2005

awarded during this fiscal year. The new grant was the Hog Creek Implementation grant. Expenses were \$3,221 below budget, which also reflects the new grant award and completion of the Hog Creek Watershed Planning Project.

Generally the draft budget is prepared and discussed at the August Board of Director's meeting and subsequently approved at the September meeting. Formation of the budget is based on the previous year's budget using the projected grant revenues for the new fiscal year. Deposits and investments have been primarily maintained in cash and deposit accounts.

Capital Assets

Primarily capital assets acquired with resources within each of the funds are reported as expenditures of the fund under the appropriate function. At the end of the fiscal year, the District had \$19,699 invested in a range of capital assets, including equipment (net of depreciation). The District added \$2,020 in capital assets during the current year. The District did not dispose of any capital assets during this fiscal year.

Factors bearing on the District's future

In summary, the overall increase in cash was a result of the delayed funding received, one grant award and the completion of the Hog Creek Watershed Planning Project. There is anxiety regarding potential budget shortfalls due to elimination of state revenue sharing at the local level. The Hillsdale County Board of Commissioners have continued to include funding for the District in their 2006 budget. Management has advised staff to utilize cash reserves to help meet funding shortfalls. Management still seeks to protect the soil and water of Hillsdale County through education and technical assistance, creating a quality environment.

Contacting the District's Management

This financial report is designed to provide a general overview of the Hillsdale Conservation District's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to:

Robin Ryan
Executive Director
Hillsdale Conservation District
588 Olds St. Bldg. 2
Jonesville, Michigan 49250
Fax: (517) 849-9895, Phone (517) 849-9890

BASIC FINANCIAL STATEMENTS

HILLSDALE CONSERVATION DISTRICT
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Net Assets</u>
ASSETS			
Cash and Cash Equivalents	\$ 73,498		\$ 73,498
Accounts Receivable	25,899		25,899
Fixed Assets, net	<u>0</u>	<u>\$ 19,699</u>	<u>19,699</u>
Total Assets	<u>\$ 99,397</u>	<u>\$ 19,699</u>	<u>\$ 119,096</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	<u>\$ 3,506</u>	<u>\$ 0</u>	<u>\$ 3,506</u>
Total Liabilities	<u>\$ 3,506</u>	<u>\$ 0</u>	<u>\$ 3,506</u>
FUND BALANCE/NET ASSETS			
Fund Balance - Unreserved/Undesignated	<u>\$ 95,891</u>	<u>\$ (95,891)</u>	
Total Fund Balance	<u>\$ 95,891</u>	<u>\$ (95,891)</u>	
Total Liabilities and Fund Balance	<u>\$ 99,397</u>		
Net Assets			
Invested in Capital Assets - Net of Related Debt		\$ 19,699	\$ 19,699
Restricted		0	0
Unrestricted		<u>95,891</u>	<u>95,891</u>
Total Net Assets		<u>\$115,590</u>	<u>\$115,590</u>
Total Liabilities and Net Assets			<u>\$119,096</u>

The accompanying notes are an integral part of this statement.

HILLSDALE CONSERVATION DISTRICT
STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2005

	General Fund Modified Accrual		Statement of
	<u>Basis</u>	<u>Adjustments</u>	<u>Activities</u>
REVENUE			
Groundwater Stewardship Grant	\$ 30,500	\$	\$ 30,500
MDA & Operational Grants	19,200		19,200
Reforestation Program	26,824		26,824
Interest Earned	684		684
Lease of Equipment	12,520		12,520
Local Grants	23,975		23,975
Hog Creek Implementation & Planning	95,197		95,197
Charges for Services	2,661		2,661
Other Revenue	<u>53</u>		<u>53</u>
Total Revenue	<u>\$211,614</u>	<u>\$</u>	<u>\$211,614</u>
EXPENDITURES			
Personal Services - District Operations	\$ 17,450	\$	\$ 17,450
Supplies Expense - District Operations	4,698		4,698
Other Services & Charges - District Operations	49,591		49,591
Personal Services - Groundwater Stewardship	13,139		13,139
Supplies Expense - Groundwater Stewardship	98		98
Other Services & Charges - Groundwater Stewardship	10,757		10,757
Reforestation Program	19,553		19,553
Personal Services - Administrative	23,346		23,346
Supplies Expense - Other	253		253
Other Services & Charges - Other	34,452		34,452
Personal Services - Implementation	17,439		17,439
Supplies Expense - Implementation	2,957		2,957
Other Services & Charges - Implementation	4,746		4,746
Capital Outlay	2,020	(2,020)	0
Depreciation	<u>0</u>	<u>5,070</u>	<u>5,070</u>
Total Expenditures	<u>\$200,499</u>	<u>\$ (3,050)</u>	<u>\$203,549</u>
Excess of Revenue Over (Under)			
Expenditures/Change in Net Assets	\$ 11,115	\$ (3,050)	\$ 8,065
Fund Balance/Net Assets - Beginning	<u>84,776</u>	<u>22,749</u>	<u>107,525</u>
Fund Balance/Net Assets - Ending	<u>\$ 95,891</u>	<u>\$ 19,699</u>	<u>\$115,590</u>

The accompanying notes are an integral part of this statement.

HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hillsdale Conservation District (the "District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

The District has implemented the provision of the Statement in the current year; therefore, these and other changes are reflected in the accompanying financial statements and notes to the financial statements.

Financial Reporting Entity

The Hillsdale Conservation District is located in the Village of Jonesville, Hillsdale County, Michigan, and is governed by a five member board. It is a public service agency, serving Hillsdale County, in the areas of soil and water conservation efforts and education in these areas. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. Based on the significance of any operational or financial relationships with the District, there are no component units to be included in these financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net assets

HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts: invested in capital assets; net of related debt; restricted net assets; and unrestricted net assets.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Under the modified accrual basis, the federal grants are susceptible to accrual. All other revenue items are considered to be available only when the cash is received by the District.

Financial Statement Presentation

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The District reports the following major governmental fund: the General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - Capital assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The District maintains a capitalization threshold of \$1,000.

HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District's equipment, computer equipment, etc. are depreciated using the straight-line method over the following useful lives:

Equipment	7 years
Computer equipment	5 years

Change in Accounting - During the current year, the District adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As a result, these financial statements include a full accrual accounting for all of the District's activities. GASB Statement No. 34 also requires fixed assets to be recorded with related depreciation.

Budgets, Budgetary Accounting and Budget Basis of Accounting - Budgets are adopted for all governmental fund types, as required by law. Budgets for the general fund are adopted at the line item level and reported in the budgetary comparison schedule at this level. The District uses the same basis of accounting for budgeting purposes as for financial statement presentation.

Encumbrance Accounting - Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by Hillsdale Conservation District.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the District Board at the line-item level. Any budgetary modifications may only be made by resolution of the District Board. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budget as reflected in the financial statements:

- 1) Prior to September 30, a public hearing is conducted on the proposed budget to obtain taxpayer comments.
 - 2) Prior to September 30, the budget is legally enacted through passage of a resolution.
 - 3) The District Board is authorized to transfer budgeted amounts between line items.
 - 4) During the year the budget is monitored, and amendments to are made when necessary.
- During the year, the following accounts had expenditures in excess of budgeted amounts, which is a

HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information (continued)

violation of State of Michigan budgeting laws:

<u>Description</u>	<u>Amount of</u> <u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Other Services - District	\$11,840	\$49,591	\$37,751
Other Services - Groundwater	10,489	10,757	268
Other Services - Other	16,463	34,452	17,989
Supplies Exp. - Implementation	300	2,957	2,657

NOTE 3 - CASH AND INVESTMENTS

Following are the components of the District's bank deposits at September 30, 2005:

Commercial Account	\$ 43,656
Cash on Hand	463
Savings Account	<u>29,379</u>
Total	<u>\$ 73,498</u>

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2005, the carrying amount of the District's deposits was \$73,498 and the bank balance was \$76,585. The entire amount was covered by federal depository insurance.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. As of September 30, 2005, the District's deposits and investments are in accordance with statutory authority.

NOTE 4 - RECEIVABLES

Receivables at September 30, 2005, consist of payments due from the State of Michigan for the Hog Creek Implementation Project, MGSP technical assistance grant, and fiscal year 2005 operation grant and are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2005, was as follows:

**HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

NOTE 5 - CAPITAL ASSETS (continued)

	Balance 9/30/2004	Additions	Deductions	Balance 9/30/05
Equipment	\$ 50,820	\$ 2,020	\$ 0	\$ 52,840
Computer Equipment	6,971	0	0	6,971
Total Capital Assets	\$ 57,791	\$ 2,020	\$ 0	\$ 59,811
Less: Accum. Depreciation	(35,042)	(5,070)	0	(40,112)
Net Capital Assets	<u>\$ 22,749</u>	<u>\$ (3,050)</u>	<u>\$ 0</u>	<u>\$ 19,699</u>

Depreciation expense for the fiscal year ended September 30, 2005 was \$5,070.

NOTE 6 - UNEMPLOYMENT TAXES

The District is a reimbursing employer to the Michigan Employment Security Agency and as such is responsible to pay the Agency for those benefits paid and charged to its account. As of September 30, appropriate liabilities (if any) have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or unfilled.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District has purchased commercial insurance for claims relating to general liability, physical damage, workers compensation, and other appropriate coverage. There has been no significant reduction in insurance coverage's and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE 8 - CONCENTRATIONS

The District receives a major portion of its revenue from Federal Grants. Reduction or elimination of this funding, if this were to occur, would have a significant effect on the organization's programs and activities.

NOTE 9 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the District's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. The difference primarily results from the long-term focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following is a reconciliation of fund balance to net assets and net change in fund balances to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 95,891
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	<u>19,699</u>

HILLSDALE CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 9 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
(continued)

Net Assets of General Fund - Full Accrual Basis	\$115,590
Net Change in Fund Balances - Modified Accrual Basis	\$ 11,115
Amounts reported in the statement of net activities are different because:	
Capital costs are not considered expenditures of the period	2,020
Capital costs are allocated over their estimated useful lives as depreciation	<u>(5,070)</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 8,065</u>

NOTE 10 - RESTATEMENTS

As of and for the year ended September 30, 2005, the District implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*
- No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*
- No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- No. 38 - *Certain Financial Statement Disclosures*

Interpretations

- No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

As a result of implementing these pronouncements for the year ended September 30, 2005, the following restatements were made to the beginning fund balance and net asset accounts:

Fund Balance of General Fund as of September 30, 2004	\$ 84,776
Add: capital assets as of September 30, 2004	57,791
Deduct: accumulated depreciation as of September 30, 2004, on the above assets	<u>(35,042)</u>
General Fund net assets, restated, as of October 1, 2004	<u>\$107,525</u>

REQUIRED SUPPLEMENTARY INFORMATION

HILLSDALE CONSERVATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
SEPTEMBER 30, 2005

	Original	Amended		Over (Under)
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Amended Budget</u>
Beginning Fund Balance	\$ 84,776	\$ 84,776	\$ 84,776	\$ 0
Resources (Inflows)				
Groundwater Stewardship Grant	30,500	30,500	30,500	0
MDA & Operational Grants	20,000	20,000	19,200	(800)
Reforestation Program	45,000	45,000	26,824	(18,176)
Interest Earned	300	300	684	384
Lease of Equipment	10,000	10,000	12,520	2,520
Local Grants	10,000	10,000	23,975	13,975
Hog Creek Program	113,942	113,942	95,197	(18,745)
Charges for Services	24,988	24,988	2,661	(22,327)
Other Revenue	<u>2,450</u>	<u>2,450</u>	<u>53</u>	<u>(2,397)</u>
Amounts Available for Appropriation	<u>\$341,956</u>	<u>\$341,956</u>	<u>\$296,390</u>	<u>\$ (45,566)</u>
Charges to Appropriations (Outflows)				
Personal Services-District	\$ 24,470	\$ 24,470	\$ 17,450	\$ (7,020)
Supplies Expense-District	8,200	8,200	4,698	(3,502)
Other Services-District	11,840	11,840	49,591	37,751
Personal Serv.-Groundwater	15,674	15,674	13,139	(2,535)
Supplies Exp.-Groundwater	400	400	98	(302)
Other Services-Groundwater	10,489	10,489	10,757	268
Reforestation Program	25,000	25,000	19,553	(5,447)
Personal Services-Admin.	36,563	36,563	23,346	(13,217)
Supplies Expense-Other	558	558	253	(305)
Other Services-Other	16,463	16,463	34,452	17,989
Personal Serv.-Imp.	35,826	35,826	17,439	(18,387)
Supplies Exp.-Imp.	300	300	2,957	2,657
Other Services-Imp.	15,917	15,917	4,746	(11,171)
Capital Outlay	<u>2,020</u>	<u>2,020</u>	<u>2,020</u>	<u>0</u>
Total				
Charges to Appropriations	<u>\$203,720</u>	<u>\$203,720</u>	<u>\$200,499</u>	<u>\$ (3,221)</u>
Ending Fund Balance	<u>\$138,236</u>	<u>\$138,236</u>	<u>\$ 95,891</u>	<u>\$ (42,345)</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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March 31, 2006

Board of Directors
Hillsdale Conservation District
588 Olds Street
Jonesville, MI 49250

As a result of our audit of the district financial statements for the year ended September 30, 2005, we would like to make the following comments and recommendations:

1. There were a few accounts that had expenditures in excess of budgeted amounts, which is a violation of State budgeting laws. We recommend that all budgets be reviewed and amended as necessary to prevent over-expenditure in any line item.

If we can be of any assistance in regard to these recommendations, please contact our office.

Respectfully,

Bailey, Hodshire & Company PC

Bailey, Hodshire & Company, P.C.
Certified Public Accountants